The Department of Education

STUDENT LOANS OVERVIEW

Fiscal Year 2019 Budget Proposal

CONTENTS

Page

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DEPARTMENT OF EDUCATION FISCAL YEAR 2019 PRESIDENT'S BUDGET
(in thousands of dollars)

	Category Code	2017 Appropriation	2018 Annualized CR	2019 President's Budget	2019 President's Budget Compared to 2018 Annualized CR Amount	Percent
Federal Direct Student Loans Program Account (HEA IV-D)						
1. New loan subsidies	M	10,119,114	9,183,000	5,624,786	(3,558,214)	-38.75%
2. New net loan subsidy (non-add)	M	(1,178,905)	(3,499,805)	(8,534,746)	(5,034,941)	143.86%
3. Upward reestimate of existing loans	M	35,419,293	4,017,163	0	(4,017,163)	-100.00%
4. Downward reestimate of existing loans (non-add)	M	(6,989,061)	(15,554,834)	0	15,554,834	-100.00%
5. Net reestimate of existing loans (non-add)	M	28,430,232	(11,537,671)	0	11,537,671	-100.00%
6. Upward modification of existing loans	M	0	60,817	0	(60,817)	-100.00%
7. Net modification of existing loans (non-add)	M	0	60,817	0	(60,817)	-100.00%
Subtotal, loan subsidies		45,538,407	13,260,980	5,624,786	(7,636,194)	-57.58%
Subtotal, new loan subsidies and net reestimate/modification (non-add)		27,251,327	(14,976,659)	(8,534,746)	6,441,913	-43.01%
Total [1]	M	45,538,407	13,260,980	5,624,786	(7,636,194)	-57.58%
Federal Family Education Loans Program Account (HEA IV-B)						
1. Upward reestimate of existing loans	M	11,155,845	2,545,960	0	(2,545,960)	-100.00%
2. Downward reestimate of existing loans (non-add)	M	(370,011)	(236,304)	0	236,304	-100.00%
3. Net reestimate of existing loans (non-add)	M	10,785,834	2,309,656	0	(2,309,656)	-100.00%
4. Downward modification of existing loans (non-add) [2]	M	0	0	(655,510)	(655,510)	---
5. Net modification of existing loans (non-add)	M	0	0	(655,510)	(655,510)	---
Total, FFEL Program Account [1]	M	11,155,845	2,545,960	0	(2,545,960)	-100.00%
Total, new loan subsidies and net reestimate/modification (non-add) [1]		10,785,834	2,309,656	(655,510)	(2,965,166)	-128.38%
Federal Family Education Loans Liquidating Account (HEA IV-B)						
1. Pre-1992 student loans	M	(159,804)	(212,095)	(186,626)	25,469	-12.01%

NOTES: D = discretionary program; M = mandatory program
Detail may not add to totals due to rounding.

For most mandatory programs, with the exception of Pell Grants, Credit Liquidating, and Credit Reestimates, the levels shown in the 2017 Appropriation column reflects the 6.9 percent reduction that went into effect on October 1, 2016, and the levels shown in the 2018 Annualized CR column reflects the 6.6 percent reduction that went into effect on October 1, 2017, pursuant to the Budget Control Act of 2011 (P.L. 112-25).

[1] *The 2018 Annualized CR column reflects the baseline estimate from the 2019 President's Budget.*
[2] *FFEL downward modification reflects Administration proposed policy in the 2019 President's Budget to eliminate Account Maintenance Fees paid to guaranty agencies.*

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Federal Family Education Loan Program (FFEL)

(Higher Education Act of 1965, Title IV, Part B)

William D. Ford Federal Direct Loan Program (Direct Loan)

(Higher Education Act of 1965, Title IV, Part D)

(dollars in thousands)

FY 2019 Authorization: To be determined

Mandatory Budget Authority:

	2018	2019	Change
Net Loan Subsidies[1]**:**			
DL Net New Loan Subsidy	-$3,499,805	-$8,534,746	-$5,034,941
DL Net Reestimate	-11,537,671	0	11,537,671
DL Net Modification	60,817	0	-60,817
DL Total Net Subsidy	-14,976,659	-8,534,746	6,441,913
FFEL Net Reestimate	$2,309,656	0	-$2,309,656
FFEL Net Modification	0	-655,510	-655,510
FFEL Total Net Subsidy	2,309,656	-655,510	-2,965,166

NOTE: Fiscal year 2018 and 2019 data reflect the 2019 President's Budget estimates and include the 6.6 percent 2018 mandatory sequester that is applied to loan origination fees.

The Direct Loan (DL) net downward reestimate is due primarily to updated discount rates (i.e., the collection of interest rates used to calculate the present value of cash flows), increased participation in Income Driven Repayment (IDR) plans, and technical changes to how loans in IDR plans are modeled. The DL net modification reflects costs to forgive accrued interest on borrower defense claims that have been denied and pending for more than one year. The FFEL net modification reflects savings due to the Administration's budget proposal to eliminate Account Maintenance Fees paid to guaranty agencies.

[1] The Direct Loan Budget Authority (BA) amounts reflect estimated negative BA as shown on page Q-1.

FEDERAL STUDENT LOANS

Authorization

2005: Language authorizing the loan programs beyond fiscal year 2008 was contained in the Higher Education Reconciliation Act (HERA) of 2005 (P.L. 109-171).

2007-2008: The College Cost Reduction and Access Act (CCRAA) (P.L. 110-84) amended loan and other Higher Education Act (HEA) programs. The Ensuring Continued Access to Student Loans Act (ECASLA) of 2008 (P.L. 110-227) provided the Government with purchase authority to buy Federal guaranteed student loans from lenders and ensure access to FFEL loans and increased Unsubsidized Stafford loan limits for undergraduates.

2010: The SAFRA Act (formerly the Student Aid and Fiscal Responsibility Act), Title II, Part A of the larger Health Care and Education Reconciliation Act of 2010 (P.L. 111-152), terminated the FFEL loan program. As of July 1, 2010, all new Federal student loans originate in the Direct Loan (DL) program.

2011: The Budget Control Act of 2011 (P.L. 112-25) generated savings by eliminating Subsidized Stafford Loans for graduate and professional students and ending most repayment incentives for all borrowers—effective July 1, 2012. Savings helped cover a shortfall in the Pell Grant program.

2012: The Consolidated Appropriations Act, 2012, (P.L. 112-74) eliminated interest payments during the grace period for loans made in academic years (AY) 2012-13 and 2013-14, and introduced a lender option to choose an alternative index—the 1-month London InterBank Offered Rate (LIBOR)—for determining special allowance.

2012: The Moving Ahead for Progress in the 21st Century Act (MAP-21) (P.L. 112-141), signed July 6, 2012, extended the Subsidized Stafford interest rate of 3.4 percent for 1 year and limited the Subsidized Stafford in-school interest subsidy to 150 percent of normal program length.

2013: The Bipartisan Student Loan Certainty Act of 2013 (P.L. 113-28) tied student loan interest rates to the high-yield 10-year Treasury note plus a basis point add-on per loan type and a cap. The Bipartisan Budget Act (BBA) of 2013 (P.L. 113-67) eliminated the amount that FFEL guaranty agencies—state and private nonprofit entities that provided default insurance payments to lenders, as well as collection and default counseling activities—could keep from defaulted loan recoveries. The BBA also reduced the maximum amount guaranty agencies could charge a borrower on a rehabilitated loan (a defaulted loan that has returned to performing status) from 18.5 to 16 percent. Guaranty agencies were also now required to send any rehabilitated loans to the Department if they could not find a private lender buyer.

2016: The Consolidated Appropriations Act, 2016, (P.L. 114-113) increased the reimbursement percentage paid to guaranty agencies by the Department of Education from 95 percent to 100 percent and extended Account Maintenance Fees paid to guaranty agencies.

Program Description

The Federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Because funding for the loan programs is provided through permanent and indefinite budget authority, student loans are considered separately for budget purposes from other Federal student financial assistance programs, but they should be viewed as part of the overall Federal effort to expand access to higher education.

In the FFEL program, private lenders provided loan capital, backed by a Federal guarantee on the loans. The Federal Government provided interest subsidies to lenders and reimbursement to guaranty agencies for most costs associated with loan defaults and other write-offs. As

FFEL and Direct Loans

stipulated by SAFRA, the FFEL program ceased making new loans as of July 2010. As of that date, the Direct Loan program has originated all new Federal loans. The Direct Loan program, created by the Higher Education Amendments of 1992 as a pilot program and expanded by the Student Loan Reform Act of 1993, has operated since July 1, 1994. Under this program, the Federal Government provides the loan capital. Postsecondary schools disburse the loans, and loan servicing is handled by the Department through private sector contractors.

In fiscal year 2019, new Direct Loan volume is estimated at $99 billion, and Consolidation Loans (which include older loans) are estimated at $51.8 billion, for a total of almost $151 billion. In fiscal year 2019, new Direct Loan volume alone will account for about 76 percent of all new postsecondary student aid available from the Department.

Four types of loans are available under the current Direct Loan program: Subsidized Stafford, Unsubsidized Stafford (Unsub.), PLUS, and Consolidation. Loans can be used only for qualified educational expenses. Subsidized Stafford Loans are available to undergraduate students from low- and moderate-income families and are awarded based on unmet financial need. Unsubsidized Stafford, PLUS, and Consolidation Loans are available to borrowers at all income levels. PLUS Loans are available to parents of dependent undergraduate students and to graduate and professional students. Consolidation Loans allow borrowers to combine all Higher Education Act Title IV loans—including FFEL, Direct Loans, and Perkins Loans, as well as some loans made under the Public Health Service Act—into one loan, eliminating multiple monthly payments.

Direct Loan borrowers are charged a loan origination fee upon taking out the loan. Subsidized and Unsubsidized Stafford Loan borrowers pay an origination fee equal to 1 percent of principal. PLUS Loan borrowers pay a 4 percent origination fee. Under sequestration, which is intended to limit program costs, the origination fees for Subsidized and Unsubsidized Stafford, and PLUS Loans are required to increase based on a percentage that OMB calculates for non-exempt nondefense mandatory programs. The sequestration percentage uses methodology described in the Budget Control Act of 2011 (BCA). In fiscal year 2018, the sequester percentage is 6.6 percent, with Stafford and Unsubsidized Stafford loan origination fees equal to 1.066 percent and PLUS loan fees equal to 4.264 percent.

Loan Repayment Plans:

Borrowers may choose from four basic types of repayment plans: standard, graduated, extended, and Income-Driven Repayment (IDR). The IDR plans include Income Contingent Repayment (ICR), Income-Based Repayment (IBR), New IBR, Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE). As part of its 2019 budget proposal, the Administration proposes to greatly simplify student loan repayment by consolidating five IDR options into a Single IDR plan.

FFEL borrowers may change repayment plans once per year, and Direct Loan borrowers may switch between repayment plans at any time. In general, student loans may be discharged when borrowers die, are totally and permanently disabled, meet limited hardship criteria, or file timely claims should their institutions close. In very limited cases student loans may be discharged through personal bankruptcy.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

There are four main features of repayment plans: eligibility, monthly payment, repayment term, and forgiveness. Each repayment plan's features are summarized below:

Repayment Plans

Key Features	Standard	Graduated	Extended	ICR	Income-Based	New Income-Based	PAYE	REPAYE
Eligibility	All Direct and FFEL loans	All Direct and FFEL loans	Direct or FFEL Borrowers w/$30,000 or more in outstanding student loans	All Direct loans except for non-Consolidated Parent PLUS	Income-eligible borrowers [loans issued before 7-1-2014][1]	Income-eligible borrowers [loans issued 7-1-2014 or later][1]	Income-eligible borrowers [loans issued 10-1-2011 or later] [1]	All Direct Loan borrowers[1]
Monthly payment	Remains fixed	Increases over time	Fixed or increases over time	20% of borrower's discretion-ary income; max pay is 12-yr fixed	15% of borrower's discretion-ary income; max pay is 10-yr fixed	10% of borrower's discretion-ary income	10% of borrower's discretion-ary income	10% of borrower's discretion-ary income
Remaining Balance Forgiven?	No	No	No	Yes	Yes	Yes	Yes	Yes
Repayment terms (in years)	10	10	up to 25	25	25	20	20	20 or 25

NOTES: Standard, Graduated, and Extended plans are fully repaid at the end of term. Only Direct Loans may be repaid under ICR, PAYE, and REPAYE plans. However, FFEL loans that are consolidated into a Direct Consolidation Loan are for the most part eligible to be repaid under ICR, PAYE, and REPAYE with the exception of Parent PLUS loans that are only allowed into ICR.

[1] Generally, plans such as Income-Based and PAYE are available to qualified borrowers who demonstrate a partial financial hardship. A partial financial hardship occurs when the monthly payment amount a borrower would otherwise have to make for 10 years under the standard repayment plan is more than the monthly payment under this plan.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

According to the Department's September 2017 Federal Student Aid (FSA) Data Center Quarterly report, enrollment in IDR plans has continued to increase. As of the fourth quarter September 2017, approximately 6.5 million Direct Loan borrowers were enrolled in IDR plans, representing about 28 percent of all Direct Loan borrowers in repayment status and 45.5 percent of all Direct Loan outstanding dollars in repayment. Borrower participation reflects a 16.3 percent increase over fiscal year 2016 and a 54 percent increase over fiscal year 2015.

History of Repayment Plans:

1990s to early 2000s: Most repayment plans have been available since the early 1990s, and the number of available repayment plans remained constant until the latter 2000s.

2007: CCRAA established the Income-Based Repayment (IBR) plan, which set monthly loan repayments at 15 percent of a borrower's discretionary income, capped at the 10-year standard repayment plan amount, with loan forgiveness after 25 years of repayment.

2010: SAFRA created a second IBR plan which reduced monthly payments for future borrowers starting July 1, 2014, from 15 percent of a borrower's discretionary income to 10 percent, and reduced the maximum period for a borrower to receive loan forgiveness from 25 to 20 years.

October 2011: Under regulatory authority, the Department accelerated these benefits for qualified borrowers who were new borrowers as of October 1, 2007, and had received a Direct Loan disbursement on or after October 1, 2011. This PAYE plan became available for eligible borrowers on December 21, 2012.

December 2015: Under regulatory authority, the Department began offering the modified REPAYE plan, which resembles PAYE, with a few key exceptions (primarily the elimination of capping payment at the 10-year standard repayment plan amount), to all qualified student borrowers regardless of when they borrowed. At the end of any Income-Driven Repayment plan term, qualified borrowers may have their remaining balance forgiven. Current law requires that those IDR-forgiven balances are taxable.

Analysis of Borrower Obligations and Loan Payments across IDR Plans

The Department is fully supportive of recommendations by Congressional staff, the Government Accountability Office (GAO), the Office of Inspector General (OIG), and external policymakers to publish more detailed cost information on Income-Driven Repayment. Over time, many more students are electing to repay by IDR plans. Given this trend, the Department conducted a series of sensitivity analyses on incomes for students in IDR and also Public Service Loan Forgiveness (PSLF). Results were published in the fiscal year 2017 Agency Financial Report along with supplemental information on IDR costs.[1]

[1] Supplemental information on IDR costs can be found as a PDF file (https://www2.ed.gov/about/overview/budget/budget17/idrtables.pdf) and as an Excel file (https://www2.ed.gov/about/overview/budget/budget17/idrtables.xls)

FFEL and Direct Loans

The Department's analysis illustrates how uncertainty around key assumptions can lead to significant variance in cost estimates. For example, a 10 percent increase in estimated borrower income would decrease costs by almost $2.3 billion for loans originated in fiscal year 2016 (i.e., the fiscal year 2016 loan cohort), while a 10 percent decrease in estimated borrower income would increase costs by $2.7 billion. A 10 percent increase in estimated PSLF plan participation would increase costs by $600 million for the same cohort of loans, while a 10 percent decrease would decrease costs by $586 million. Uncertainty around borrower interest rates can also lead to program cost variance. For instance, a 1 percent increase in the projected borrower interest rate would reduce projected direct loan subsidy cost by $5.2 billion, while a 1 percent decrease in the projected borrower interest rate would increase estimated subsidy costs by $4.7 billion.

The following analysis provides insight into how borrower payments, a foundational driver of student loan program costs, vary significantly across different IDR plans. This analysis provides another helpful approach for examining IDR by showing how different borrowers are affected by the plans available under current law and the proposed Single IDR plan.

The table below compares the major income-driven repayment plan options. The plans are compared in terms of the ratio of estimated total amount of payments to the amount borrowed for different income and debt categories, which are approximately equal in size. The table is based on a representative sample of borrowers expected to enter IDR repayment in fiscal year 2019, with income categories defined according to a borrower's average projected income throughout the full repayment period. This method is designed to show how borrowers are affected by the different repayment plans but is not appropriate for comparing the costs of IDR plans, as costs to the Government of IDR loans are driven by the net present value of cash flows as the loans are repaid, not total payments made or total balances forgiven.

Estimated Ratio of Loan Payment Totals to Initial Principal Balance for Income-Driven Repayment Plans
Borrowers Entering Repayment in Fiscal Year 2019

Annual Income and Total Loan Debt	ICR	Pre-2014 IBR	PAYE & Post-2014 IBR	REPAYE	PROPOSED SINGLE IDR
Income <= 70,000 Debt <= 25,000	1.81	1.67	1.39	1.39	1.34
Income <= 70,000 Debt > 25,000	1.87	1.53	1.10	1.35	1.45
Income 70,001-110,000 Debt <= 40,000	1.67	1.74	1.59	1.46	1.42
Income 70,001-110,000 Debt > 40,000	1.92	1.85	1.37	1.67	1.88
Income > 110,000 Debt <= 60,000	1.65	1.77	1.65	1.52	1.48
Income > 110,000 Debt > 60,000	1.93	2.01	1.54	1.91	2.13

NOTE: This table combines PAYE and New Income Based repayment plans since they are very similar.

FFEL and Direct Loans

For comparison purposes, the table analyzes the projected payments, assuming completion of the full expected repayment period, under each of the IDR plans for all borrowers expected to enter repayment in fiscal year 2019. Student borrowers will choose repayment plans given their circumstances, and overall participation in IDR plans will depend on the terms of the IDR plans available at a given time, although the complexity of choices may inadvertently lead to some confusion by borrowers.

From the borrowers' perspective, lower ratios usually indicate more advantageous plans. However, the wide variation of ratios by income category across plans illustrates the trade-offs borrowers face when considering the payments required and the length of time that payments must be made. The variation in ratios reflect the differences in repayment terms across the plans. For example, the standard repayment cap allows borrowers to limit monthly payments to no more than what they would pay under a standard 10 year payment. The proposed Single IDR plan, which eliminates the standard repayment cap, produces the highest ratios for high-income, high-balance borrowers who would be expected to pay greater shares of their balances and accrued interest than they would in other plans. Further, the proposed Single IDR plan would tend to produce lower ratios overall for lower debt borrowers, due in large part to the expedited forgiveness provided to borrowers with only undergraduate debt.

To better understand the ratios in the table, the following example may be helpful. For every $10,000 of loans borrowed, borrowers represented by the first category (where annual income is less than or equal to $70,000 and where student loan debt is less than or equal to $25,000) would pay, on average, $18,100 over their entire repayment period under ICR versus $16,700 under pre-2014 IBR, $13,900 under PAYE/post-2014 IBR, $13,900 under REPAYE, and $13,400 under the proposed plan. Based on the ratios above, borrowers generally would pay less in totality under PAYE, REPAYE, and the proposed Single IDR plan. In general, the PAYE/post-2014 IBR and REPAYE options will consistently result in lower total repayment amounts for borrowers than ICR or pre-2014 IBR options. The lower total borrower payments do not necessarily reflect higher costs to the Government, which are determined by the net present value of repayment cash flows.

Loan Forgiveness[1]

As noted previously, borrowers who complete their Income-Driven Repayment plan term may have their remaining balance forgiven. Estimates of forgiveness under the current IDR plans for borrowers entering repayment in 2019—combined across all IDR plans, since borrowers can switch between plans—assume about 18 percent of borrowers would pay their loans off in full; 28 percent would end up not completing their repayment term due to default, prepayment, or other discharge; 34 percent would get IDR forgiveness; and 20 percent would qualify for Public Service Loan Forgiveness (PSLF).

Of those student borrowers whose balances are projected to be forgiven, about 71 percent would have an amount forgiven less than their original balance, and about 29 percent would

[1] Analysis in this section reflects assumptions used to calculate the 2019 Budget's student loan baseline for program cost estimates under current law. This does not incorporate assumptions for the 2019 Budget proposal for a Single IDR plan.

have an amount forgiven greater than their original balance. The original median balance for borrowers who would qualify for non-PSLF IDR forgiveness is estimated at $46,000, and the median amount forgiven is estimated at $23,000. The original median balance for borrowers who would qualify for PSLF is estimated at $44,000 and the median amount forgiven under PSLF is estimated at $24,000.

Under both the FFEL and Direct Loan programs, new borrowers after October 1, 1998, who are employed as teachers in schools serving low-income populations for 5 consecutive, complete school years, qualify for up to $5,000 in teacher loan forgiveness; this benefit is increased to $17,500 for mathematics, science, and special education teachers considered highly qualified under criteria defined in section 9101 of the Elementary and Secondary Education Act of 1965, as amended. The Budget retains teacher loan forgiveness programs in order to incentivize more high-quality teachers to teach in high-need schools and subjects.

Public Service Loan Forgiveness

In 2007, CCRAA authorized a Public-Service Loan Forgiveness (PSLF) program for nonprofit and public-sector employees. The criteria for defining a "public service organization" is broad and covers any federal, state, or local government organization or agency and most charitable non-profit organizations. In addition, non-profit employers include most private schools, colleges, and universities and other employers with a 501(c)(3) IRS designation. Moreover, the specific job performed does not matter as long as the organization meets the eligibility requirements.

Borrowers must make 120 separate monthly payments while employed by an eligible public service organization, but payments do not have to be consecutive. Borrowers who make 120 qualifying payments under the 10-year standard repayment plan, or under any Direct Loan Income-Driven Repayment plan, or any combination of the 10-year standard plan and any Direct Loan income-driven plan, will have any remaining loan balance forgiven. Amounts forgiven under PSLF are exempt from taxation. The PSLF benefit is only available in the Direct Loan program, though FFEL borrowers may receive forgiveness by taking out a Direct Consolidation Loan and subsequently making 120 qualifying payments.

The first cohort of borrowers became eligible for PSLF discharge in October 2017. The Department introduced a voluntary Employment Certification Form in January 2012 that helps track qualifying payments. Recent data from the Federal Student Aid Data Center show that through quarter three of fiscal year 2017, about 1.86 million borrower forms were submitted, and about two-thirds of those were considered certified. However, it should be noted that submission of this form is optional; borrowers may apply for forgiveness after completion of their 120 qualifying payments.

The Budget proposes to eliminate the PSLF program for new borrowers on or after July 1, 2019 with an exception for students who borrowed their first loans prior to July 1, 2019 and who are borrowing to complete their current course of study.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Interest Rates and Loan Limits—By Type of Loan

Since 1965, interest rates on Federal student loans have been set in statute. For many years, the statute set the terms at fixed or variable rates reset annually. Starting July 1, 2006, as specified by amendments to the Higher Education Act passed on February 8, 2002 under P.L. 107-139, the rate on all Subsidized and Unsubsidized Stafford loans was fixed at 6.8 percent while the borrower interest rate on Direct PLUS loans was fixed at 7.9 percent.

The College Cost Reduction and Access Act (CCRAA) of 2007 included an annual phased interest rate reduction for all new undergraduate Subsidized Stafford loans, with fixed interest rates dropping from 6.8 percent to 6 percent on July 1, 2008, until reaching 3.4 percent on July 1, 2011. The Moving Ahead for Progress in the 21st Century Act (MAP-21) (P.L. 112-141), signed July 6, 2012, extended the Subsidized Stafford interest rate of 3.4 percent for 1 year.

The Bipartisan Student Loan Certainty Act of 2013, signed on August 9, 2013, established a market-based system tying student loan interest rates to the high-yield 10-year Treasury bill plus a statutorily-set basis point add-on up to a statutory cap. Interest rates for each loan type are set annually before the award year begins on July 1 but are fixed for the life of the loan, similar to fixed-rate home mortgages. The 10-year Treasury rate is determined each year at the Treasury bill auction held prior to June 1. The interest rates for academic year 2017-2018 were set in June 2017.

Summaries of each loan type follow:

- <u>Subsidized Stafford (Stafford) Loans</u> are low-interest, fixed-rate loans with annual and aggregate loan limits for eligible undergraduates who meet financial need criteria. The Budget Control Act of 2011 eliminated graduate and professional student eligibility for these loans effective July 1, 2012. The interest rate is set annually, remains fixed for the life of the loan, and is capped at 8.25 percent. The Government pays the interest while the student is in school or deferment. The President's fiscal year 2019 Budget proposes to eliminate this subsidy for new borrowers on or after July 1, 2019, with an exception for students who borrowed their first loans prior to July 1, 2019 and who are borrowing to complete their current course of study. Loans disbursed between July 1, 2017 and June 30, 2018, (academic year 2017-2018) will have an interest rate of 4.45 percent, based on the 10-year Treasury rate of 2.40 percent plus a statutory add-on of 2.05 percent.

- <u>Unsubsidized Stafford Loans</u> are low-interest, fixed-rate loans available to student borrowers, regardless of financial need, and have loan limits. Interest accrues while the borrower is in school. Borrowers may defer payment of interest while in school and have the interest capitalized—added to the loan principal—upon entering repayment. New Unsubsidized Stafford Loans to undergraduates have the same rate and cap as Subsidized Stafford Loans (4.45 percent). However, the interest rate for graduate students has an add-on of 3.60 percent and a 9.5 percent cap. For academic year 2017-2018, the rate is 6.00 percent based on the 3.60 add-on and 10-year Treasury note of 2.40 percent.

- <u>PLUS Loans</u> are available to parents of dependent undergraduate students and to graduate and professional degree students. There is no annual or aggregate limit on the amount that

FFEL and Direct Loans

can be borrowed other than the cost of attendance minus other student financial aid. Generally, applicants must not have an adverse credit history. The Government does not pay interest accruing on PLUS Loans. The interest rate for new loans first disbursed between July 1, 2017 and June 30, 2018, is 7.00 percent based on the 10-year Treasury note of 2.40 percent and an add-on of 4.60 percent. The PLUS rate cap is 10.5 percent.

- Consolidation Loans allow borrowers with existing Federal student loans to combine their loans and possibly extend their repayment schedules based on their total student loan debt outstanding. In general, to consolidate loans in the Direct Loan program, a borrower must have an outstanding principal balance on at least one eligible loan made under either the FFEL or Direct Loan program. Loans such as Subsidized Stafford, Unsubsidized Stafford, PLUS, and sometimes other Consolidation Loans are eligible. In addition, other Federal student loans from different programs are also eligible such as Federal Perkins Loans, Federal Insured Student Loans, National Defense Student Loans, Health Education Assistance Loans, and Nursing Loans. The interest rate for Consolidation Loans is equal to the weighted average of the interest rates on the loans consolidated rounded to the nearest higher one-eighth of 1 percent, which is then fixed for the life of the loan. The Bipartisan Student Loan Certainty Act of 2013 eliminated the cap of 8.25 percent.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Borrower Interest Rates By Academic Year and Program Component

Type of Loan	Loans made on or after Oct. 1, 1998[1]	Loans made on or after July 1, 2006[2]	Loans made on or after July 1, 2013[3]
Stafford and Unsubsidized Stafford	91-day Treasury bill rate +1.7%, during in-school, grace, or deferment periods, but T-bill +2.3% during repayment; not to exceed 8.25%.	Both types: 6.8%; only Stafford loans reduced: 6.0%--2008-2009 5.6%--2009-2010 4.5%--2010-2011 3.4%--2011-2012 3.4%--2012-2013	**Undergrads**: [Sub and Unsub] 10-yr. Treasury note + 2.05%, w/cap of 8.25%; **Grads**: [Unsub] 10-yr Treasury note + 3.6%; w/cap of 9.5%
PLUS	91-day Treasury bill rate +3.1%, not to exceed 9%.	Fixed rate of 7.9% for Direct PLUS; increased to 8.5% under HERA for FFEL PLUS.	Grad and parent: 10-yr Treasury note + 4.6%, w/cap of 10.5%.
FFEL Consolidation Loans[4]	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of 1 percent, not to exceed 8.25%.	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of 1 percent, not to exceed 8.25%.	N/A
Direct Consolidation Loans--Stafford and Unsubsidized Stafford	91-day T-bill rate +2.3%, not to exceed 8.25% for applications received 10-1-98 through 1-31-99; weighted average basis, as above, thereafter.	Weighted average basis, as above.	Weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1 percent.
Direct PLUS Consolidation	Same as Direct Consolidation Loans for Stafford and Unsubsidized Stafford.	Same as Direct Consolidation Loans for Stafford and Unsubsidized Stafford.	Same as Direct Consolidation Loans for Stafford and Unsubsidized Stafford.

[1] The Transportation Equity Act for the 21st Century lowered interest rates for new Stafford, Unsubsidized Stafford, and PLUS loans made on or after July 1, 1998, and before October 1, 1998. These rates were extended under the HEA of 1998 to July 1, 2003, and further extended to July 1, 2006, via P.L 107-139.
[2] Interest rates from CCRAA of 2007 (P.L. 110-84).
[3] Interest rates from the Bipartisan Student Loan Certainty Act of 2013 (P.L. 113-28).
[4] The Emergency Student Loan Consolidation Act of 1997, which was included in the Department’s fiscal year 1998 appropriation, temporarily changed a number of laws affecting Consolidation Loans. Under this Act, which expired September 30, 1998, the interest rate for FFEL Consolidation Loans made on or after November 13, 1997, was based on the 91 Day Treasury-bill + 3.1 percent, not the weighted average of the interest rates on the loans consolidated. SAFRA eliminated new FFEL Loans as of July 1, 2010.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Student Loan Program Maximums
(Whole dollars)

	STAFFORD (Subsidized)	TOTAL (Stafford & Unsubsidized Stafford)
DEPENDENT UNDERGRADUATES	**Annual Limits**	**Annual Limits**
First-Year Student	$3,500	$5,500[1]
Second-Year Student	$4,500	$6,500[1]
Third-Year+ Student	$5,500	$7,500[1]
INDEPENDENT UNDERGRADUATES [2,3]		
First-Year Student	$3,500	$9,500[1]
Second-Year Student	$4,500	$10,500[1]
Third-Year+ Student	$5,500	$12,500[1]
GRADUATE STUDENTS [4]	0	$20,500
	Aggregate Limits	**Aggregate Limits**
DEPENDENT UNDERGRADUATES	$23,000	$31,000[1]
INDEPENDENT UNDERGRADUATES [2,3]	$23,000	$57,500[1]
GRADUATE STUDENTS [4]	$23,000	$138,500

[1] ECASLA of 2008 increased Unsubsidized Stafford amounts by $2,000 annually for loans first disbursed on or after July 1, 2008. Aggregate amounts for dependent undergraduates increased by $8,000 and for independent undergraduates by $11,500. Graduate student levels did not change.

[2] Also includes dependent undergraduates whose parents are unable to borrow under the PLUS program.

[3] Students who qualify for only a portion of the maximum Stafford Loan limit may borrow up to the remaining loan amount under the Unsubsidized Stafford Loan program, with the total amount borrowed limited to cost of attendance minus other aid. For example, a dependent first-year student who qualifies for a $2,000 Stafford Loan would be eligible for an additional $3,500 in Unsubsidized Stafford up to the total of $5,500. For students borrowing under both programs, the loan limits displayed above in the Total (Stafford and Unsubsidized Stafford) column apply.

For independent undergraduate students (or dependent undergraduate students whose parents cannot borrow under the PLUS program) and for graduate students, the maximum limit during any academic year is: the combined Stafford and Unsubsidized Stafford Loan limit shown under the column entitled, "Total (Stafford and Unsubsidized Stafford)." For example, a second-year independent student could borrow up to $4,500 in Stafford Loans and up to an additional $6,000 in Unsub. Loans for a total of $10,500. Under HERA, qualified graduate and professional students are eligible to borrow PLUS loans, where the only limit is the cost of attendance minus other student aid.

[4] As of July 1, 2012, graduate and professional students are not eligible for Stafford Loans. Total Stafford Aggregate Limit of $23,000 reflects the maximum undergraduate amount, which is included in the graduate level cumulative limit. The aggregate loan limit for graduate students is regulated by the Department.

FFEL and Direct Loans

Credit Reform Estimates

Student loan program costs are estimated consistent with the terms of the Federal Credit Reform Act (FCRA) of 1990. Under the Act, future cash flows, meaning costs and revenues associated with a loan, are estimated for the life of the loan and discounted back to the date of disbursement using Treasury interest rates. This set of interest rates, provided by OMB,(i.e., the discount rate) is used to calculate the present value of the cash flows, which also determines Federal borrowing costs.

Federal loan programs are often compared using subsidy rates, which represent the Federal cost as a percentage of loan originations. Generally, subsidy costs may reflect a combination of positive and negative subsidy by loan type with the relative weightings by loan type and other accounting rules determining the overall net positive or negative subsidy. A negative subsidy occurs when the present value of cash inflows to the Government is estimated to exceed the present value of cash outflows. Under Federal Credit Reform Act rules, costs such as defaults and in-school interest benefits are embedded within the program subsidy, while Federal administration costs are treated on a cash basis and are not included in the subsidy rate.

Both the FFEL and Direct Loans programs are funded by mandatory and indefinite budget authority and, therefore, do not receive annual discretionary appropriations. Both programs also incur various administrative expenses that are funded by the discretionary Student Aid Administration (SAA) account. In fiscal year 2019, the Administration requests $1.772 billion in SAA funding to administer all Title IV Federal student aid programs. This includes $762 million for student aid salaries and expenses and $1,010 million for loan servicing activities. The fiscal year 2019 SAA budget request is discussed in the **Student Aid Administration** account.

A subsidy rate is the Federal portion of non-administrative costs—principally interest subsidies and defaults—associated with each dollar disbursed. The subsidy rate reflects the estimated unit cost per loan, over the life of the loan, to the Federal Government. For example, a $1,000 loan with Federal subsidy costs of $100 would have a subsidy rate of 10 percent. If loan subsidy costs were negative, such as -$100, then the loan has a negative subsidy rate of -10 percent, indicating that the Federal Government was receiving 10 percent on each dollar of loans made instead of incurring a cost. Program changes, economic conditions, and borrower repayment patterns can affect subsidy estimates and reestimates.

Annual variations in the subsidy rate are largely due to the relationship between the OMB-provided discount rate that approximates the Government's borrowing rate, the interest rate at which borrowers repay their loans, as well as technical assumptions for defaults, repayment patterns, plan selection, and other borrower characteristics. The loan subsidy estimates are particularly sensitive to fluctuations in the discount rate. Even small shifts in economic projections may produce substantial changes in the subsidy rate.

In the current fiscal year 2018, the Direct Loan program has an estimated net total negative subsidy—due in part to the spread between Federal borrowing costs based on the discount rate and the interest rates owed by borrowers. In fiscal year 2018, the Direct Loan program weighted average negative subsidy rate for new and Consolidation Loans is estimated at -2.18 percent.

FFEL and Direct Loans

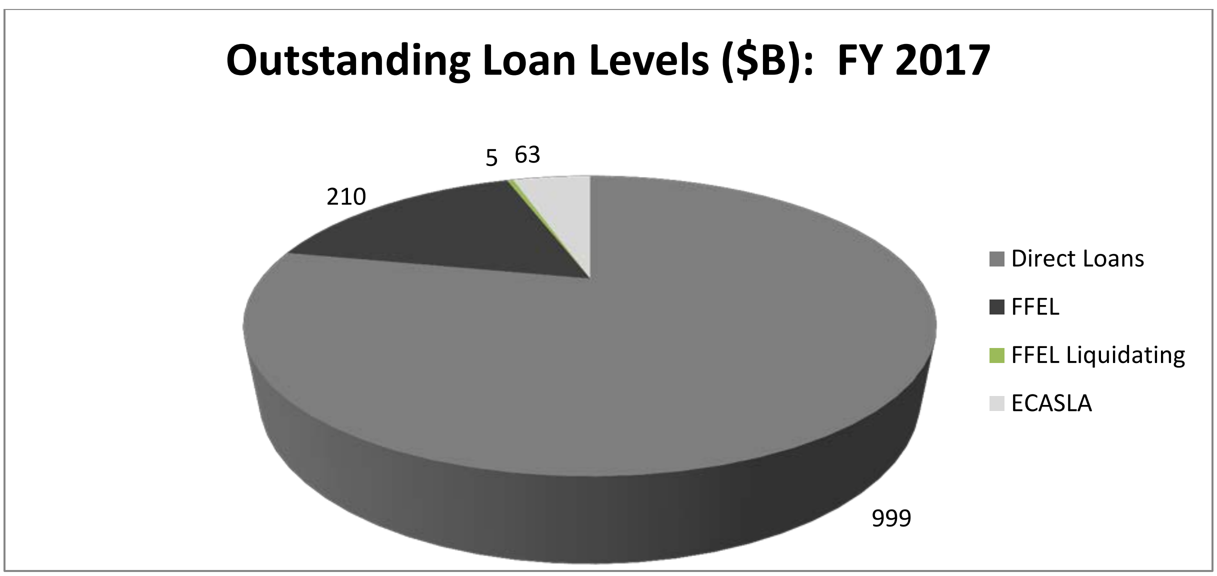
However, subsidy rates can vary significantly by loan types. For example, in fiscal year 2018, Subsidized Stafford Loans estimated at 8.30 percent and Consolidation Loans at 14.18 percent have positive subsidy rates, indicating a cost to the Government, while Unsubsidized Stafford loans for undergraduates estimated at -6.21 percent and Unsubsidized Stafford loans for graduates at -12.64 percent have negative subsidy rates, reflecting a savings to the Government. PLUS loans also reflect negative subsidy rates at -31.40 percent for undergraduates and -23.33 percent for graduates.

Subsidy rates also vary according to repayment options, with the greatest differences appearing between costlier IDR plans and other plans such as Standard, Extended, and Graduated. For example, in current fiscal year 2018, the cohort of Subsidized Stafford loans show an estimated subsidy rate of 6.30 percent under Standard (ten-year repayment), compared to a subsidy rate of 22.77 percent under all IDR plans. Unsubsidized Stafford loans show a subsidy rate of -17.66 percent under Standard repayment compared to 22.46 percent under IDR.

However, in fiscal year 2019, based on the Administration's proposals, the estimated subsidy rate for Subsidized Stafford is 4.20 percent under Standard repayment compared to 12.39 percent under all IDR plans, while the Standard repayment rate for Unsubsidized Stafford loans is -18.44 percent versus 1.22 percent under IDR plans. The much lower IDR subsidy rates in fiscal year 2019 compared to fiscal year 2018 reflect Budget proposals that would significantly reduce costs to taxpayers while preserving key repayment benefits for student borrowers.

Outstanding Loan Levels

Based on the budget tables published in the 2019 Budget Appendix, at the end of fiscal year 2017, outstanding FFEL and Direct Loan principal totaled approximately $1,277 billion:



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Reestimates of Subsidy Costs

Under credit reform, the Department annually reestimates the cost of outstanding loans since fiscal year 1992 by loan cohort to reflect updated modeling assumptions, the President's Budget economic assumptions, and historical loan performance.

For the $999 billion in Direct Loan principal outstanding at the end of 2017, the President's fiscal year 2019 Budget calculates that net future Federal costs of all outstanding loans is lower than projected in the 2018 President's Budget; this difference is the 2018 reestimate. The 2018 total net downward reestimate of -$11.5 billion reflects an upward component of about +$4 billion and a downward component of -$15.5 billion. This net reestimate accounts for about 1.2 percent of the total Direct Loan outstanding portfolio. The net downward reestimate is due primarily to updated Federal discount rates, increased participation in Income Driven Repayment (IDR) plans, and technical changes to how loans in IDR plans are modeled. In response to recommendations from a GAO audit report, the Department incorporated an adjustment for inflation into the IDR submodel as well as estimates for IDR subsidies by loan type. In addition, assumptions in the submodel were updated for default collection, death, disability,and bankruptcy, and prepayment rates.

Similarly, the total change in costs for all outstanding FFEL loans at the end of fiscal year 2017—starting with guaranteed loans made as of October 1, 1992—is the 2018 reestimate. The 2018 FFEL guaranteed loan reestimate reflects an upward component of +$1.44 billion and a downward component of -$10 million, for a total net upward reestimate of +$1.43 billion. Thus, the estimated Federal cost of prior FFEL loans (1992-2017) is higher by about $1.43 billion than previously projected. The FFEL 2018 net upward reestimate was due primarily to interest rates provided by OMB and updated prepayment rate model assumptions. The Ensuring Continued Access to Student Loans Act (ECASLA) programs show a net upward reestimate of +$878.8 million, which when combined with the FFEL net upward guaranteed portion of +$1.43 billion produces an overall net upward FFEL reestimate of +$2.3 billion in fiscal year 2018, representing about 0.8 percent of the overall FFEL loan portfolio.

Total net FFEL and Direct Loan subsidy costs for the past 5 fiscal years are shown below:

(dollars in thousands)

Fiscal Year	FFEL	Direct Loans
2014	-$5,676,042	-$15,715,097
2015	-3,293,567	17,303,195
2016	-1,074,690	-1,472,077
2017	10,785,834	27,251,327
2018	2,309,656	-14,976,659

NOTE: Subsidy costs include net reestimates (combined upward and downward) of prior cohorts and net modifications, which may produce significant annual fluctuations, such as in fiscal year 2015 when Direct Loans (DL) expanded an income-based repayment plan to all borrowers. The DL subsidy in FY 2018 includes an upward modification of $60.8 million reflecting costs to forgive accrued interest on borrower defense claims that have been denied and pending for more than one year. FFEL totals also reflect ECASLA programs, consistent with the Budget.

FFEL and Direct Loans

FY 2019 BUDGET PROPOSAL

The President's fiscal year 2019 Budget proposal addresses student debt by simplifying student loan repayment and redirecting inefficiencies in the student loan program to prioritize expedited debt relief for undergraduate borrowers. These loan proposals are part of a larger effort in the fiscal year 2019 President's Budget to simplify funding for college while addressing the unique needs of today's students.

All student loan policies would apply to loans originated on or after July 1, 2019, with an exception for students who borrowed their first loans prior to July 1, 2019 and who are borrowing to complete their current course of study. Calculated against the President's fiscal year 2019 Budget baseline, these policies would save approximately $203 billion over ten years.

Student Loan Reform Proposals

Simplify Student Loan Programs and Repayment

In recent years, Income-Driven Repayment (IDR) plans, which offer student borrowers the option of making affordable monthly payments based on factors such as income and family size, have grown in popularity. However, choosing and enrolling in the right repayment plan is overly complicated by the numerous repayment plans authorized and required by law to be offered to student borrowers.

The President's fiscal year 2019 Budget proposes to greatly simplify student loan repayment by consolidating five IDR plans into a single plan.

The Single IDR plan would set a borrower's monthly payment at 12.5 percent of discretionary income, while eliminating the standard repayment cap to ensure that high-income, high-balance borrowers make payments commensurate with their income. Married borrowers who file separately would have their payments determined based on both spouse's income.

For borrowers with undergraduate student debt only, any balance remaining after 15 years of repayment would be forgiven. For borrowers with any graduate debt, any balance remaining after 30 years of repayment would be forgiven. To further improve the implementation and effectiveness of IDR, the Budget proposes auto-enrolling severely delinquent borrowers and instituting a process for borrowers to consent to share income data for multiple years. To facilitate these program improvements, and to reduce improper payments, the Budget proposes to streamline the Department of Education's ability to verify applicants' income data held by the Internal Revenue Service (IRS).

While retaining teacher loan forgiveness programs in order to incentivize more high-quality teachers to teach in high-need schools and subjects, the 2019 Budget proposes eliminating inefficient subsidies to help put the Nation on a more sustainable fiscal path and prioritize expedited debt relief for undergraduate borrowers. The fiscal year 2019 Budget proposes eliminating Public Service Loan Forgiveness, Subsidized Stafford Loans, and the payment of Account Maintenance Fees to guaranty agencies. These proposals would also help simplify the student loan programs.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Eliminate Subsidized Stafford Student Loans

To simplify the types of loans undergraduate borrowers can take out, the President's fiscal year 2019 Budget proposes to eliminate these inefficient subsidies. Therefore, all new undergraduate student loans would be unsubsidized. This policy would apply to loans originated on or after July 1, 2019, with an exception for borrowers continuing to borrow to complete their current course of study.

Eliminate Account Maintenance Fees (AMF) paid to Guaranty Agencies

The President's fiscal year 2019 Budget proposes to eliminate AMF payments to guaranty agencies. Since the move to 100 percent direct lending, these agencies have pared back services and are able to generate significant fee income through debt collection activities.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2019 Estimated New Direct Loan Volume

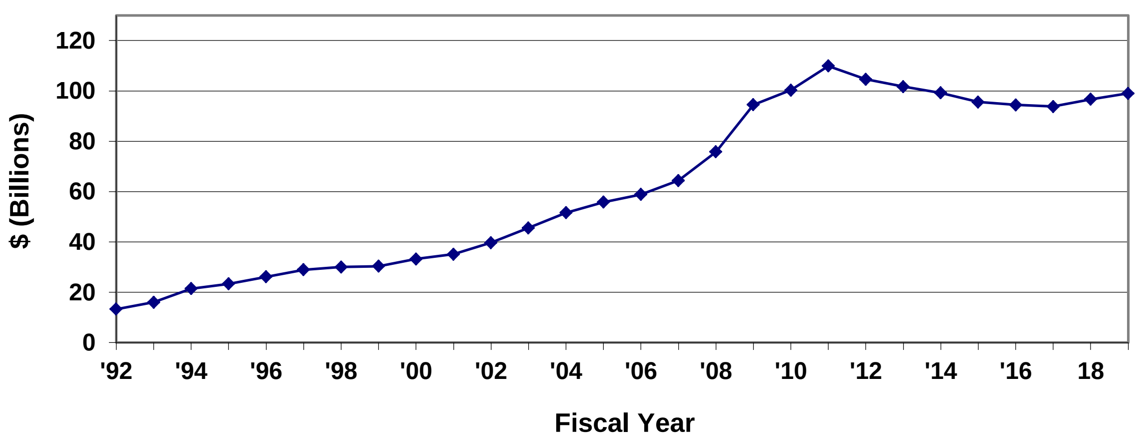
New Direct Loan dollar volume increased significantly from 2007 to 2011, as the financial crisis drove many non-traditional students to seek higher education. However, from 2011 to 2017, as the economy recovered, loan volume declined. In keeping with long-term student loan trends, the fiscal year 2019 Budget estimates modest increases in total loan volume in future years. Subsidized and Unsubsidized Stafford Loans are estimated to account for 75 percent of new Direct Loan volume in fiscal year 2019, with PLUS loans at 25 percent. The graduate school portion of borrowing is estimated to increase 12.5 percent between fiscal years 2014 and 2019, accounting for 36 percent of new volume in fiscal year 2014 and 40 percent in fiscal year 2019.

New Student Loan Volume (Non-Consolidation)
(Dollars in Millions)

Program Volume	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Subsidized Stafford	$25,730	$23,957	$22,426	$21,542	$21,627	$17,181
Unsubsidized Stafford	54,590	51,657	50,237	49,816	51,134	56,833
PLUS	18,867	19,965	21,772	22,455	23,914	25,000
Total New Loan Volume	99,187	95,579	94,434	93,813	96,675	99,014
Graduate School Portion	35,335	35,008	35,867	37,093	38,650	39,741

NOTES: Loan volume reflects net commitments.
Figures for fiscal years 2018-2019 are estimates.

New Student Loan Volume (Non-Consolidation)



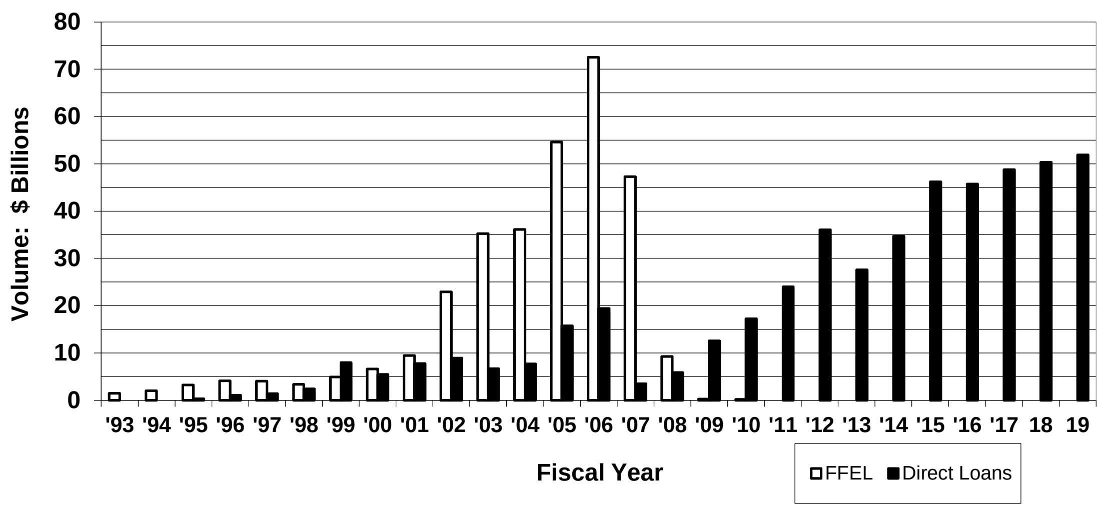
Many factors such as college costs, legislative changes, eligibility changes, State aid, Federal aid, economic conditions, and enrollment demographics affect new loan demand. Historical loan volume data and current projections are shown below.

FFEL and Direct Loans

FY 2019 Estimated Consolidation Loan Volume

Direct Loan Consolidation volume surged from about $35 billion in fiscal year 2014 to $46 billion in fiscal year 2015 and is estimated to increase steadily to about $52 billion in fiscal year 2019. The increase in 2015 may be due to increased marketing and outreach on the part of additional Consolidation Loan servicers brought under contract in July 2014, although increased borrowing in fiscal years 2009-2011 and higher borrower loan balances could also be contributing factors. The 2012 surge was due to a special temporary incentive repayment program, where borrowers who had both a FFEL and a Direct Loan were offered an additional 0.25 percent interest rate reduction incentive to consolidate their loans under this special program (January-June 2012). Repayment incentives also included the regular 0.25 percent interest rate reduction for electronic payment.

Consolidation Loan Volume



The Role of Student Loans

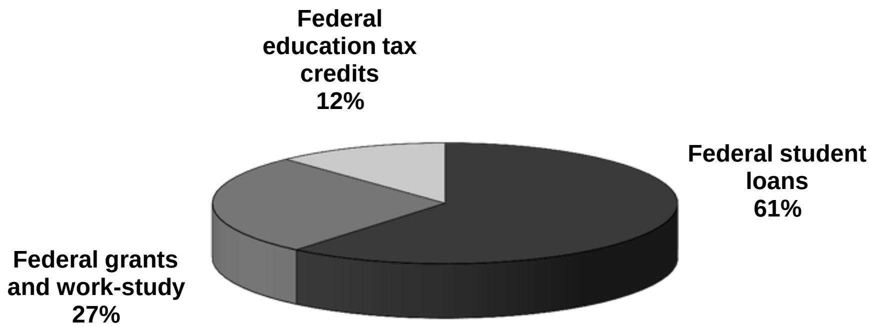
A major goal of the Federal student aid programs is to assist families in meeting college costs. Federal student loans play a key role along with Federal grants, Federal Work-Study funds, and Federal education tax credits. The following charts show that Federal student loans are the largest component of the Federal postsecondary aid system. Data show new Federal student loans (excluding Consolidation loans) accounted for about 61 percent of academic year 2016-2017 Federal student aid, while Federal grants and work-study accounted for 27 percent. Federal tax benefits accounted for 12 percent. The recently passed Tax Cuts and Jobs Act of 2017 (PL 115-97) made no changes to the existing higher education tax credits including the American Opportunity and Lifetime Learning tax credits.

This breakout is based on data from Table 1 in the “College Board Trends in Student Aid 2017” (Student Aid Trends) online report, which is stated in constant 2016 dollars, https://trends.collegeboard.org/student-aid.

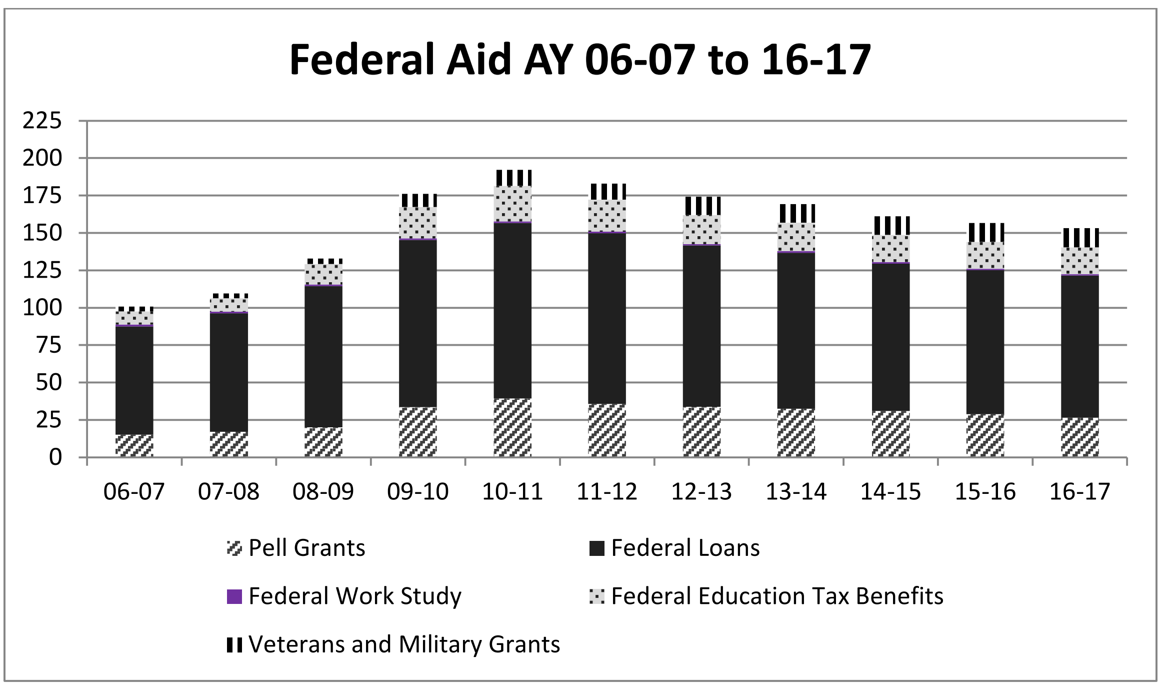
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Federal Postsecondary Assistance: Academic Year 2015-2016



According to this report, approximately $251 billion in total funds from Federal, State, institutional, and private sources were used to help finance postsecondary expenses for academic year 2016-17. The Federal Government provided about $154 billion, or 61 percent of all these funds, while State, institutional, and private sources (i.e., non-Federal) provided about 39 percent. The chart below shows the historical trend for major Federal aid programs over the past decade based on data in the College Board online report.



Postsecondary Cost, Borrowing, and Enrollment by Institutional Sector

The 2017 “College Board Trends in College Pricing” report shows that the average annual total cost of attendance, including tuition and fees and room and board (in current dollars), at a public

FFEL and Direct Loans

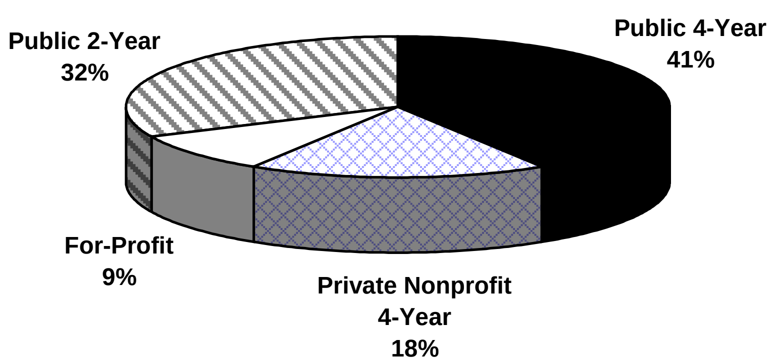
4-year college increased by 53 percent from $13,560 in 2007-08, to $20,770 in 2017-18 (see Table 2, https://trends.collegeboard.org/college-pricing.) Over the same 10-year period, the average yearly total cost at a private 4-year college increased by 47 percent, from $31,990 to $46,950. Using just tuition and fees shows that public 4-year schools increased from $6,190 in 2007-08 to $9,970 in 2017-18, a 61 percent increase, while private 4-year schools increased from $23,420 to $34,740, a 48 percent increase.

Also of interest during this period are the tution and fees—there is no room and board—at public 2-year (community colleges). Those schools increased from $2,290 in 2007-08 to $3,570 in 2017-18, a 56 percent increase, but a much lower overall cost. Historically, increases in public college costs are often tied to State budget reductions to higher education funding.

Students rely on the Federal loan programs to help close the gap between what their families are expected to pay ("estimated family contribution") and the cost of attendance (including tuition, fees, and room and board).

Using undergraduate enrollment data from the Department's Integrated Postsecondary Education Data System (IPEDS), the College Board's 2017 "Trends in Student Aid" report estimates student full-time equivalency (FTE) patterns providing context on where undergraduates choose to attend. The latest enrollment data (Fall 2015),shows that about 41 percent of all undergraduate students were enrolled at 4-year public institutions, 18 percent at 4-year private nonprofit institutions, 32 percent at 2-year public colleges, and 9 percent of all undergraduates were enrolled at private for-profit schools.

2015 Fall Undergraduate Enrollment (Percent of FTE)



The table below shows a summary breakout percentage distribution of specific financial aid sources by school sector. For example, the portion of Pell Grant funds going to students in public 4-year schools is about the same as that going to students in public 2-year schools, but more than double the portion in private 4-year and for profit school sectors. Subsidized Stafford

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Loan funds are concentrated in the public 4-year sector. The public 2-year sector has the lowest borrowing percentages of any sector.

Percentage Distribution of Selected Federal Aid Funds by Sector, 2015-16

Type of Aid	Public 4-yr	Private 4-yr	Public 2-yr	For-profit
Pell Grant	33%	16%	34%	16%
Subsidized Stafford	43%	26%	14%	17%
Unsubsidized Stafford	40%	37%	6%	17%
Parent PLUS	49%	42%	1%	8%

NOTE: Row percentages may not sum to 100 due to rounding; columns are not intended to sum to 100.

FFEL Liquidating Account

Per the Federal Credit Reform Act of 1990, the cost of FFEL student loan commitments made prior to fiscal year 1992 is appropriated annually under indefinite authority and shown in a Liquidating Account on a cash basis. This account does not issue any new loans, nor estimate loan-lifetime costs by cohort, and does not use a net present value calculation. The Liquidating Account pays for pre-1992 student loan activities, such as loan default payments, special allowance payments, and interest benefits. Consequently, as default and in-school interest costs on these older loans decline over time and recoveries on defaulted loans continue to be collected, annual revenues—offsetting collections—will more than offset annual costs, resulting in negative program costs for which no new budget authority is needed. Based on the 2019 Budget request, total net outlays are estimated to be -$212 million in fiscal year 2018 and -$187 million in fiscal year 2019, meaning collections are expected to exceed payments. A portion of these net collections is returned to the U.S. Treasury as a capital transfer each year.

Federal Student Loan Reserve Fund

The Amendments to the Higher Education Act (HEA) of 1998 clarified that reserve money held by public and non-profit guaranty agencies participating in the FFEL program are Federal property when held in the Federal fund, (i.e., Reserve Fund), as opposed to funds held in the Operating Fund over which guaranty agencies retain control. The Federal fund is used to pay default claims from FFEL lenders, and other claims related to death, disability, bankruptcy, and closed schools. This fund also pays fees to support successful guaranty agency efforts to avert defaults. Federal reimbursements for default claim payments are also paid into this fund. The Consolidated Appropriations Act, 2016, increased the reimbursement percentage paid to guaranty agencies by the Department of Education from 95 percent to 100 percent.

The Reserve Fund began fiscal year 2017 with an adjusted unobligated balance of about $1.2 billion. The Fund's major revenues are reinsurance payments from the Federal Government, and its major expenses are insurance payments to lenders. These and other cash flows are estimated to result in an ending balance in fiscal year 2017 of about $1.7 billion, which becomes the starting balance for fiscal year 2018. Fiscal year 2018 is estimated to have an ending balance of $2.2 billion.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

PROGRAM OUTPUT MEASURES

Direct Loans	2017	2018	2019
Direct Stafford Loans:			
Loan volume ($ in millions)[1]	$21,542	$21,627	$17,181
Number of loans (in thousands)	6,181	6,198	4,934
Average loan (whole $)	$3,485	$3,489	$3,482
Subsidy rate[2]	9.20%	8.30%	6.40%
Direct Unsubsidized Stafford Loans (Undergraduate):			
Loan volume ($ in millions)[1]	$22,665	$23,181	$28,268
Number of loans (in thousands)	6,236	6,290	6,597
Average loan (whole $)	$3,634	$3,686	$4,285
Subsidy rate[2]	-0.88%	-6.21%	-8.69%
Direct Unsubsidized Stafford Loans (Graduate):			
Loan volume ($ in millions)[1]	$27,151	$27,953	$28,565
Number of loans (in thousands)	1,828	1,863	1,890
Average loan (whole $)	$14,853	$15,003	$15,111
Subsidy rate[2]	-2.62%	-12.64%	-12.62%
Direct PLUS Loans (Undergraduate):			
Loan volume ($ in millions)[1]	$12,513	$13,217	$13,824
Number of loans (in thousands)	933	960	989
Average loan (whole $)	$13,410	$13,762	$13,972
Subsidy rate[2]	-31.04%	-31.40%	-34.19%
Direct PLUS Loans (Graduate):			
Loan volume ($ in millions)[1]	$9,942	$10,697	$11,176
Number of loans (in thousands)	565	588	602
Average loan (whole $)	$17,582	$18,187	$18,550
Subsidy rate[2]	-1.22%	-23.33%	-19.09%
Direct Consolidation Loans:			
Loan volume ($ in millions)[1]	$48,762	$50,295	$51,848
Number of loans (in thousands)	856	872	885
Average loan (whole $)	$56,935	$57,707	$58,559
Subsidy rate[2]	3.58%	14.18%	8.43%
Total Direct Loans[3]:			
Loan volume ($ in millions)[1]	$142,575	$146,970	$150,862
Number of loans (in thousands)	16,600	16,771	15,898
Average loan (whole $)	$8,589	$8,764	$9,489
Subsidy Cost:			
New loan subsidy cost ($ in millions)[4]	-$1,179	-$3,500	-$8,535
Subsidy Net Reestimate ($ in millions)[4]	28,430	-11,538	0
Net Modification ($ in millions)[4]	0	61	0
DL Total Net Subsidy ($ in millions)	27,251	-14,977	-8,535
Average Weighted Subsidy rate[2]	-0.75%	-2.18%	-5.20%

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Direct Loans	2017	2018	2019
Outstanding Loan Volume ($ in billions):			
Total Direct Loans Outstanding[5]	$999	$1,081	$1,159

NOTE: Numbers may not add due to rounding.

[1] Net commitments (disbursements) that are less than amounts committed (e.g., due to loan cancellations).
[2] This rate generally reflects the Federal cost per new loan dollar. When negative, this rate indicates a net savings to the Federal Government. Subsidies are weighted on gross volumes and are consistent with the rates shown in the text table on Student Loan Program Costs that appears in the Budget Appendix.
[3] Totals reflect DL program amounts only—no Perkins Loans.
[4] Subsidy amounts of existing loans are estimated on a net present value basis. Negative subsidy results in a net savings to the Federal Government. Net reestimates and modifications may reflect both upward and downward amounts—consistent with data on page Q-1.
[5] Reflects total Direct Loan principal (including Consolidations) as the end-of-year estimate.

FFEL Program Loans

There are no new FFEL loans. Information on the FFEL annual reestimates and subsidy modifications, as well as outstanding loan volume, are presented below.

FFEL Loans	2017	2018	2019
Subsidy Cost			
Net Reestimate ($ in millions)[1]	$10,786	2,310	0
Net Modification ($ in millions	0	0	-$656
Total FFEL Net Subsidy ($ in millions)	10,786	2,310	-656
Outstanding Loan Volume ($ in billions):			
FFEL Loans	$210	$190	$174
ECASLA Loans	63	55	47
Liquidating Account Loans	5	4	4
Total Combined Outstanding Loan Volume[2]	278	249	225

[1] Subsidy amounts are estimated on a net present value basis and since no new loans are made, only net reestimates and net modifications are reported. Reestimates may reflect both upward and downward amounts—consistent with data on page Q-1. The reestimate in fiscal year 2017 is largely due to updated collection assumptions and ECASLA reestimates are also included, consistent with the Budget Appendix. The downward modification in fiscal year 2019 reflects proposed policy to eliminate Account Maintenance Fees paid to guaranty agencies.

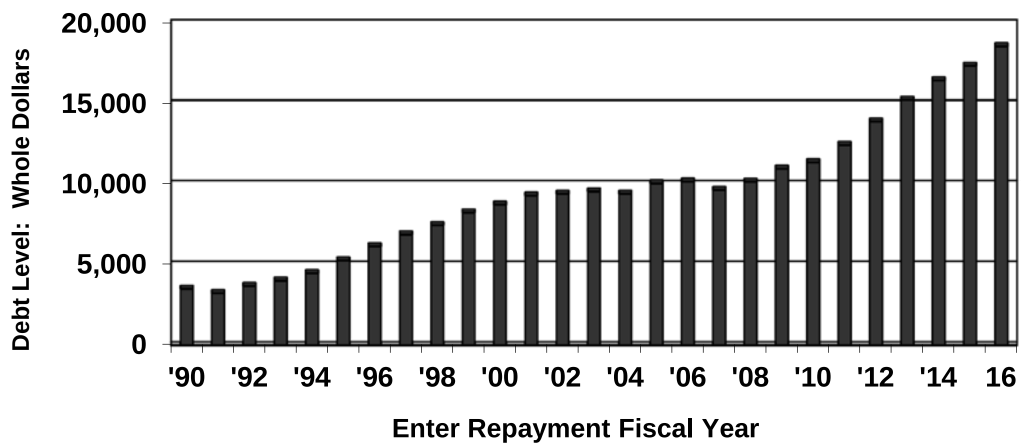
[2] Reflects total FFEL and Liquidating account loan principal (including Consolidations) as end-of-year estimate.

FFEL and Direct Loans

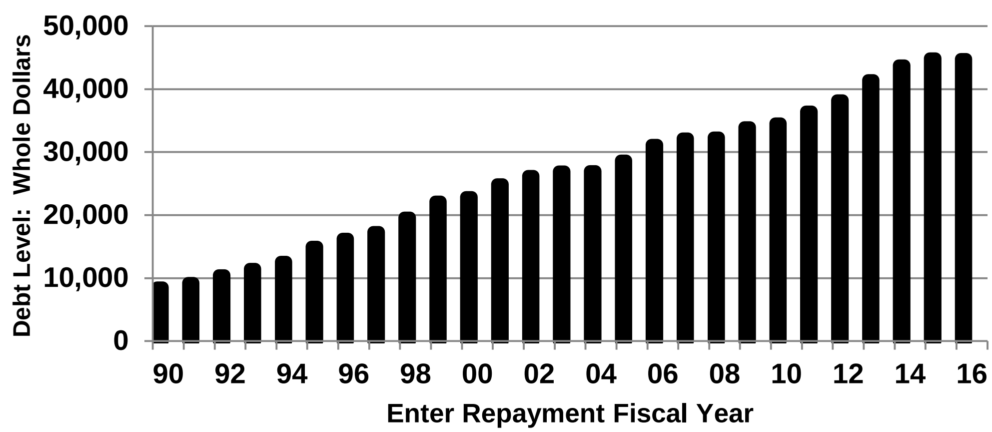
Median Federal Student Loan Debt

National Student Loan Data System (NSLDS) data reveal that the median level of outstanding Federal student loan balances owed (i.e., Subsidized Stafford and Unsubsidized Stafford Loans) per student for all undergraduate borrowers upon entering repayment has increased substantially over time, from $3,491 in 1990, to $8,713 in 2000, and to $18,548 for those who entered repayment in 2016. Graduate student loan debt has also increased substantially from $8,546 in 1990, to $22,876 in 2000 and $44,821 in 2016. Amounts are shown in current dollars. Graduate debt reflects borrowing at the graduate level only.

Median Undergraduate Federal Student Loan Debt When Entering Repayment



Median Graduate Federal Student Loan Debt When Entering Repayment



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Undergraduate and Graduate Borrower Distribution by Family Income

These charts reflect the percentage of dependent and independent undergraduate borrowers of Subsidized and Unsubsidized Stafford Loans at various family income levels, according to NSLDS data for academic year (AY) 2016-2017. Graduate student data is also presented.

Approximately 55 percent of Subsidized Stafford Loan dependent borrowers come from families with under $60,000 in family income, compared to about 40 percent of the Unsubsidized Stafford Loan dependent borrowers. Notably, almost 50 percent of all Unsubsidized Stafford Loan dollars go to dependent students from families with incomes greater than $100,000. Independent undergraduate student borrowers are fairly similar in their borrowing pattern for both Subsidized and Unsubsidized Stafford loans. About half of all independent undergraduate student recipients of Subsidized or Unsubsidized loans are from households in the under-$20,000 income category. Graduate student borrowers are also concentrated in the under-$20,000 income category.

Percentage of Borrowers and Dollars of Aid by Income Category: AY 2016-17 (NSLDS)

Dependent Students (Income Categories = dollars in thousands)

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Subsidized Stafford	Borrowers	19.3%	19.4%	16.1%	14.3%	11.6%	19.2%
Subsidized Stafford	Dollars	18.9%	19.6%	16.5%	14.6%	11.6%	18.8%
Unsub. Stafford	Borrowers	13.7%	14.1%	12.3%	12.0%	11.6%	36.3%
Unsub. Stafford	Dollars	10.7%	10.6%	9.1%	9.3%	10.7%	49.7%

Independent Students (Income Categories = dollars in thousands)

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Subsidized Stafford	Borrowers	52.3%	27.1%	10.5%	5.2%	2.7%	2.1%
Subsidized Stafford	Dollars	51.7%	27.4%	10.7%	5.4%	2.8%	2.1%
Unsub. Stafford	Borrowers	49.7%	26.0%	10.8%	5.8%	3.5%	4.3%
Unsub. Stafford	Dollars	47.3%	25.6%	11.0%	6.3%	4.0%	5.7%

Graduate Students (Income Categories = dollars in thousands)

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Unsub. Stafford	Borrowers	42.6%	20.2%	13.6%	8.1%	5.9%	9.5%
Unsub. Stafford	Dollars	50.1%	18.5%	11.7%	6.8%	4.8%	8.0%
PLUS	Borrowers	60.3%	16.3%	9.2%	5.0%	3.3%	5.8%
PLUS	Dollars	63.3%	15.4%	8.5%	4.5%	2.9%	5.4%

NOTE: Loan Type measures for Borrowers and Dollars, add across columns to 100 percent.
Income category columns $20-40 through $100+ reflect income amounts of $20,001- $40,000 and so forth.

FFEL and Direct Loans

Undergraduate Students by Income Category

These tables, using NPSAS 2012 data from academic year 2011-2012, show the percentage of all undergraduates according to income categories; and within income categories, the percentage of each income group that received Subsidized Stafford Loans, Unsubsidized Stafford Loans, or any form of Federal aid, such as Pell Grants, Work Study, or student loans. For example, in the Dependent Students table, 15.8 percent of all dependent undergraduates are from families with total income under $20,000 and, of that group, 43.7 percent received Subsidized Stafford Loans, 33 percent received Unsubsidized Stafford Loans, and 83.2 percent reported receiving some type of Federal aid.

These tables show that Federal aid in general goes to lower- and middle-income groups, as intended. For instance, in the dependent students table, the two lowest family income categories—0-$20,000 and $20,001-$40,000—have the highest percentages of students receiving some form of Federal aid, corresponding to 83.2 percent and 73.8 percent, respectively, while the highest income category—$100,000+—reflects the lowest percentage of dependent undergraduates receiving aid, at 38 percent.

Percentage of Undergraduate Students by: 1) Income Level and 2) Within Income Level, By Type of Federal Aid: Academic Year 2011-12 (NPSAS)

Dependent Students (Income Categories = dollars in thousands)

Group Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Undergraduates	Students	15.8%	17.9%	12.4%	13.7%	11.9%	28.3%
Subsidized Stafford	% Receiving	43.7%	40.8%	48.7%	39.9%	32.1%	17.8%
Unsub. Stafford	% Receiving	33.0%	31.3%	39.1%	37.4%	36.9%	33.2%
Federal Aid	% Receiving	83.2%	73.8%	69.2%	49.0%	44.3%	38.0%

Independent Students (Income Categories = dollars in thousands)

Group Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Undergraduates	Students	50.0%	24.1%	11.9%	6.9%	3.5%	3.7%
Subsidized Stafford	% Receiving	44.0%	37.5%	28.4%	23.0%	21.0%	9.9%
Unsub. Stafford	% Receiving	37.3%	32.4%	25.1%	23.3%	23.1%	19.6%
Federal Aid	% Receiving	69.6%	54.9%	42.4%	31.7%	27.8%	20.8%

NOTES: In both tables above, the “Undergraduates” percentages will add across columns to 100 percent. However, the “% Receiving” aid measures are not all mutually exclusive. Therefore, they are not intended to and will not sum to 100 percent, across columns or by income level.

“Federal Aid” reflects percentages of students receiving any form of Federal aid including student loans, grants, or work-study.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Loan Volume by Institutional Sector

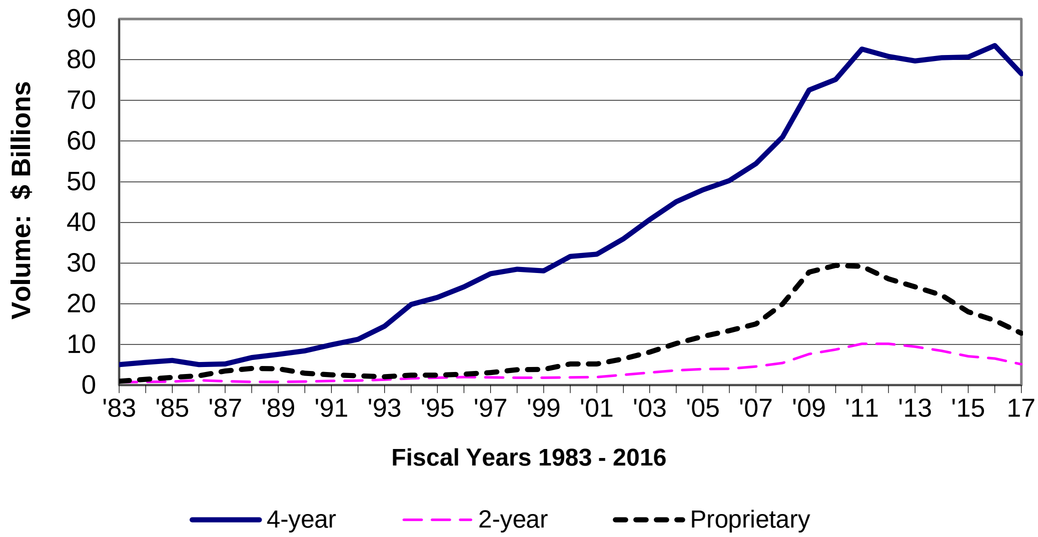
The following charts are based on NSLDS and related data.

Distribution of New Loan Volume Dollars by Institution

FY 2017	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
Direct Loans	42.6%	38.4%	5.2%	0.2%	13.5%

The following graph depicts annual gross commitment loan volume trends by 4-year, 2-year, and proprietary school sectors. (Direct Loans are from program inception in fiscal year 1994.)

Annual Loan Volume by 4-Year, 2-Year, and Proprietary School Sectors



- Loan volume at 4-year institutions increased steadily from about $5 billion in fiscal year 1983 to almost $83 billion in fiscal year 2011, after which it decreased modestly to about $80 billion. It remained level until an uptick in 2016 and a noticeable decrease in 2017. Loan volume at 4-year institutions accounts for about 81 percent of all volume in fiscal year 2017.

- Loan volume at proprietary institutions increased substantially between fiscal years 1999 and 2010. However, proprietary school loan volume declined between fiscal years 2010 and 2017, from $29.4 billion to $12.7 billion. In fiscal year 2010, proprietary school loan volume was 26 percent of total volume, and in fiscal year 2017, 13.5 percent.

- Loan volume at 2-year institutions is comparatively small as school costs are also lower. Volume remained steady at about $2 to 4 billion for many years before increasing to $8 to10 billion after the economic downturn in 2008. Levels have since decreased annually for the past 5 years, accounting for only 5.5 percent of all loan volume in 2017.

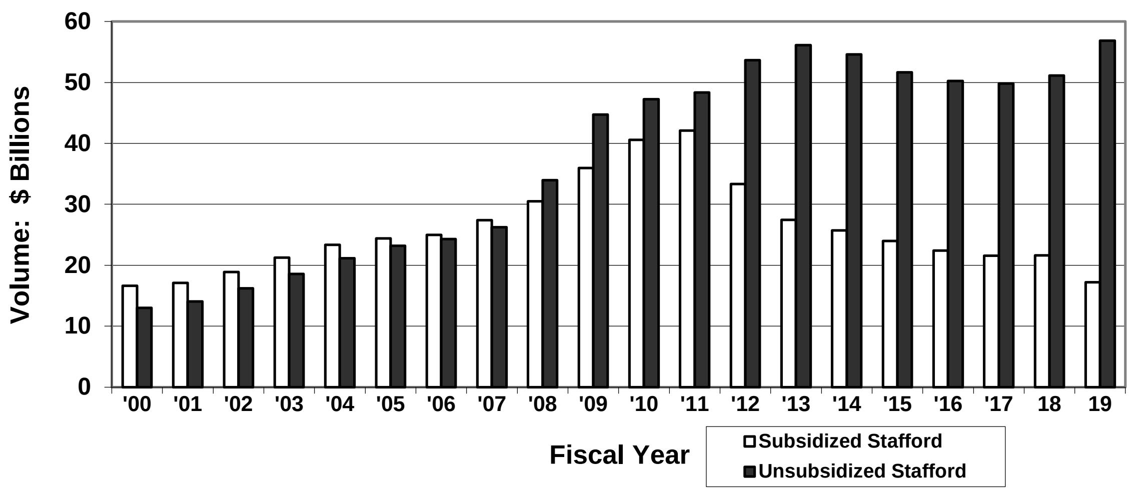
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Loan Volume by Subsidized and Unsubsidized Stafford Loans

A substantial portion of loan volume growth in the last decade is attributable to the Unsubsidized Stafford Loan program. As of July 1, 2012, graduate and professional students are no longer eligible for Subsidized Stafford Loans, explaining the sharp decrease in the Subsidized Stafford Loan volume in that year. Fiscal year 2019 reflects the proposed policy to make all Stafford Loans unsubsidized for new borrowers, with an exception for borrowers continuing to borrow to complete their current course of study.

Subsidized Stafford Loan and Unsubsidized Stafford Loan Volume



NOTE: Loan volume is estimated for fiscal years 2017-2019.

PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including GPRA goals, objectives, measures, and performance targets and data; and an assessment of the programs' progress in achieving program results. Achievement of program results is based, in part, on the cumulative effect of program resources available in previous years as well as in fiscal year 2019 and future years, and the resources and efforts invested by those served by this program.

The student loan programs and other Federal financial aid programs help remove financial barriers to postsecondary education. Because these programs rely on the same performance measures, strategies, and program improvement activities, such measures are discussed in the Student Financial Assistance account and are not repeated here.

However, in response to a GAO recommendation regarding the development of program performance measures for Teacher Loan Forgiveness (TLF), the Department has initiated a metric to track the number of borrowers who receive TLF. Since trends in loan forgiveness tend to follow trends in the Stafford loan program, this metric will track the number of Stafford borrowers who receive forgiveness per year, including loans from both Direct Loan and FFEL programs. This number is estimated to increase in future years as the Department finds ways to better publicize and promote these programs as GAO recommended. Specifically, the Department is working on ways to raise awareness among current and incoming students and among potentially eligible borrowers who have already entered the workforce.

The following table reflects current baseline (2010 – 2017) and target (2018 – 2022) levels for the number of Stafford Loan borrowers receiving Teacher Loan Forgiveness.

Teacher Loan Forgiveness Performance Measure

Fiscal Year	Number of Borrowers Receiving Forgiveness
2010—Baseline	20,676
2011	28,720
2012	28,052
2013	34,680
2014	39,180
2015	38,122
2016	36,736
2017	36,004
2018—Target	38,000
2019	40,000
2020	42,000
2021	44,000
2022	46,000

Based on the 2008 National Postsecondary Student Aid Study (NPSAS), 46.9 percent of all undergraduates reported receiving some type of Federal Title IV financial aid in 2007-08 and 34.5 percent reported borrowing a Federal Stafford (Subsidized or Unsubsidized) Loan. In the 2012 NPSAS, 57.2 percent of undergraduates reported receiving some type of Federal Title IV aid and 40.1 percent reported having borrowed a Federal Stafford Loan in 2011-12. Initial data from the 2016 NPSAS reveals 54.4 percent of undergraduates reported receiving some type of Federal Title IV aid and 36.2 percent reported having borrowed a Federal Stafford Loan in 2015-16, reflecting a decrease in student borrowing in recent years. Of undergraduates who borrowed a Federal Stafford Loan, the average amount borrowed was $5,000 in 2007-08, $6,400 in 2011 -12, and $6,600 in 2015-16. More data from the 2016 NPSAS is due out in spring 2018.

In addition, graduate and professional student borrowing reflects a similar pattern. According to the 2008 NPSAS, 38.9 percent of graduate and first-professional students reported borrowing a Subsidized or Unsubsidized Stafford Loan in 2007-08, while in 2011-12 this figure was 43 percent. Initial data from the 2016 NPSAS shows 39.9 percent. The average Stafford Loan amount borrowed by graduate and first-professional students was $15,600 in 2007-08, $17,000 in 2011-12, and $18,200 in 2015-16. Graduate students were not eligible for Subsidized Stafford Loans as of July 1, 2012.

The percentage of graduate students who reported borrowing PLUS loans jumped from 4.9 percent in 2007-08 to 9.9 percent in 2011-12, with the average amount growing from

$15,500 to $18,600. Some of this trend was due to the change in graduate student eligibility for Subsidized Stafford and to the increasing use of PLUS, rather than private loans. Preliminary data from the 2016 NPSAS shows that 10 percent of graduate students reported borrowing PLUS Loans with an average amount of $22,300.

In fiscal year 2017, the Direct Loan program, excluding Consolidations, provided approximately $94 billion in new loan assistance to an estimated 7.9 million qualified borrowers. In doing so, the Federal student loan programs helped ensure access to postsecondary education by providing loans to students and their families at lower interest rates and with more favorable repayment terms than they would be able to obtain elsewhere. Without access to Federal student loans, many students might not be able to obtain educational loans, since many private lenders have underwriting standards that would restrict access to students with little or no work experience or credit history. In addition, private loans have few of the protections of Federal loans and often have higher interest rates.

National Student Loan Cohort Default Rate

Given the annual volume of Federal student loans, ensuring that those taxpayer-funded loans are repaid is critical to the long-term success of the student loan program. In addition, since the consequences of default on a Federal student loan are severe, the Administration is committed to ensuring that borrowers can easily select a repayment plan and have student loan payments that are manageable.

The Administration’s proposed policy for creating a Single Income-Driven Repayment (Single IDR) plan further enhances the prospects of student repayment success by simplifying and streamlining income-driven options into one uniform plan for new borrowers.

With the introduction of an Income-Driven Repayment (IDR) plan approach, the Department has significantly improved a borrower’s opportunity to select a repayment plan that can help make student loan debt more manageable, and borrowers have been responding. For example, data from the Department’s FSA Data Center show that the number of Direct Loan borrowers enrolled in an IDR plan has increased since fiscal year 2015 by 54 percent to almost 6.5 million borrowers in fiscal year 2017.

The national student loan “cohort default rate” measures student loan borrower default behavior in the first 3 years of repayment, but excludes PLUS loan defaults. This cohort default rate measure was established by the Omnibus Budget Reconciliation Act of 1990 (OBRA), to exclude “high-default” institutions from participation in the loan programs. The measure looks at the performance of an institution’s loans in the first 2 years of repayment. Under this law, schools were excluded from FFEL, Direct Loan, and Pell Grant program eligibility—for at least 3 years—if they hit or exceeded a 25 percent default rate threshold for 3 consecutive years.

The Higher Education Opportunity Act of 2008 (HEOA) raised the 25 percent threshold to 30 percent for fiscal years 2012 and beyond. HEOA also changed the window from 2 years to 3 years, starting with the borrowers who would enter repayment in fiscal year 2009. Only the 3-year cohort default rate is now published, starting with the 2012 cohort.

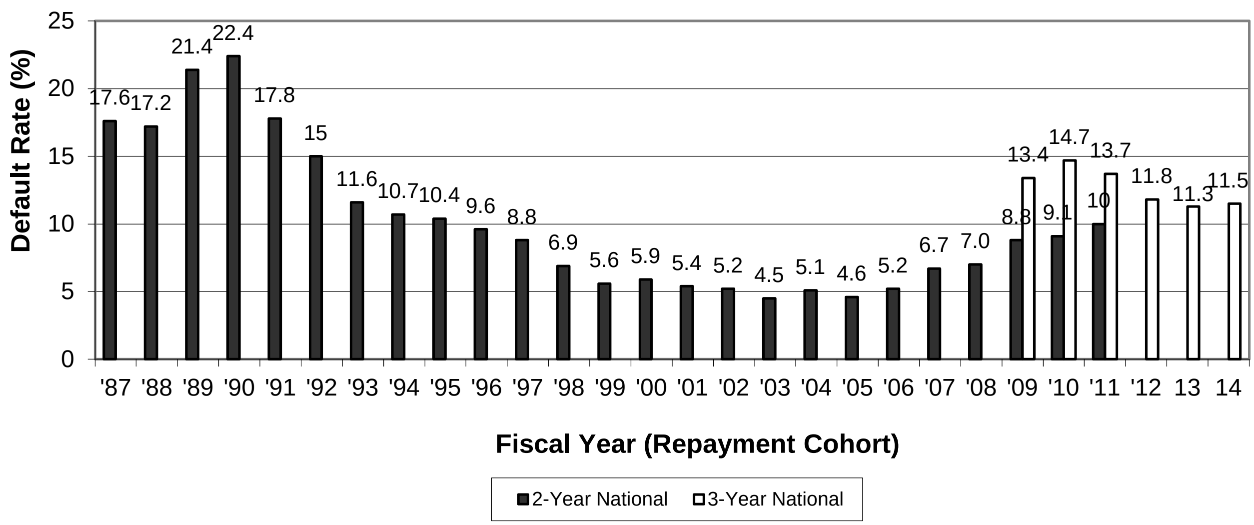
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

The first official 3-year cohort default rate was 13.4 percent issued for the 2009 cohort, and published on September 28, 2012. The most recent 3-year cohort default rate for the 2014 cohort was 11.5 percent. For the 2014 cohort, 5.048 million borrowers from 6,173 postsecondary institutions entered repayment, and 580,671 of those borrowers defaulted within a 3-year period.

The national cohort default rate also includes component data on cohort default rates by school sectors. The 2014 cohort default rates published showed public 2-year schools sector with 18.3 percent, the proprietary school sector with 15.5 percent, and the private non-profit 2-year schools sector with 18.1 percent. The rates are lower for borrowers at 4-year public and private schools: 7.6 percent and 7.0 percent respectively.

2-Year and 3-Year National Cohort Default Rates



The national "cohort default rate" (as shown above) measures borrower default behavior in just the first 2 years or 3 years of repayment—any defaults outside this period are not incorporated into the default rate. As a result, this rate does not reflect the "lifetime dollar default rates" used in budget formulation to project future default costs. Lifetime default rates account for defaults over the entire loan-life and are significantly higher than the 3-year cohort default rate.

FY 2019 Cohort Lifetime Dollar Default and Recovery Rates

The following table shows the estimated dollar default and recovery rates for the 2019 cohort of new loans in the Direct Loan program. The default rates reflect the percentage of dollars that are estimated to go into default over the life of the particular cohort. The recovery rates reflect the percentage of dollars the Federal Government estimates it will recover on those defaults.

Since interest continues to accrue during default, it drives the estimate of total collections. However, the Federal Government might only recover some or none of the dollars for a default, particularly if a borrower enters an income-driven repayment plan after entering repayment.

FFEL and Direct Loans

FY 2019 Cohort Lifetime Dollar Default and Recovery Rates

Direct Loans	Lifetime Default Rate	Cash Recovery Rate	Cash Recovery Rate (net of CCC)	NPV Recovery Rate (net of CCC)
Subsidized Stafford	15.69%	99.23%	91.86%	81.98%
Unsub Stafford (Undergrad)	16.59%	99.92%	92.08%	81.84%
Unsub Stafford (Graduate)	6.10%	84.86%	80.95%	78.55%
Unsub Stafford (Combined)	11.32%	95.84%	89.07%	80.99%
PLUS (Undergrad)	9.60%	96.27%	87.91%	76.45%
PLUS (Graduate)	4.67%	82.34%	78.01%	78.10%
PLUS (Combined)	7.40%	92.34%	85.12%	76.86%

Note: Estimated fiscal year 2019 lifetime default rates and associated collection costs are affected by the 2019 Budget proposal to auto-enroll severely delinquent borrowers in the Single IDR proposed plan and institute a process for borrowers to consent to share income data for multiple years.

Lifetime Default Rate: Default rates for the 2019 cohort of Direct Loans range from 16.59 percent for Unsubsidized Stafford Loans to undergraduates down to 4.67 percent for PLUS Loans to graduate students. Lifetime dollar defaults as a percentage of disbursements reflect outstanding principal and interest at time of default divided by original loan dollar amounts disbursed, all on a cash basis, without adjusting for net present value.

Cash Recovery Rate: This cash recovery rate follows the methodology used in prior years where contract collection costs (CCC) are included in the gross recovery rate. This column reflects cumulative principal, interest, and fee recoveries on defaulted loans divided by the outstanding principal and interest at time of default, all on a cash basis. It includes collection costs that are assessed on the loans of defaulted borrowers and paid to collection agencies. However, these collection costs may not be assessed on those borrowers who meet certain conditions and enter back into a good standing on their loans.

Cash Recovery Rate (net of CCC): This column shows cash recovery rates net of contract collection costs—where contract collection costs are not included—since the dollars do not return to the Federal Government but are used to pay private debt collection contractors.

This column reflects cumulative principal, interest, and fee recoveries on defaulted loans divided by the outstanding principal and interest at time of default, all on a cash basis. It does not include collection costs. However, these collection costs may not be assessed on those borrowers who meet certain conditions and enter back into a good standing on their loans. These estimates also assume that borrowers who return to good standing repay their loans under the original loan terms.

NPV Recovery Rate (net of CCC): This rate shows recovery rates net of contract collection costs using a net present value (NPV) basis, which takes into account the factor of time on the dollar value of missed payments due to default and subsequent default collections. Under the NPV basis, the recovery rates reflect the discounting of missed payments due to default and subsequent loan collections over a 40-year loan lifetime window. The NPV recovery rate helps

FFEL and Direct Loans

provide a broader context over time for determining the success of collection efforts in recovering defaulted Direct Loans.

This column reflects cumulative principal, interest, and fee recoveries on defaulted loans divided by the outstanding principal and interest at time of default on a NPV basis, using 2019 budget discount rates. It does not include collection costs. However, these collection costs may not be assessed on those borrowers who meet certain conditions and who return to repayment and good standing on their loans. These estimates also assume that borrowers who return to good standing repay their loans under the original loan terms.